The Science of Finance: An Investigation of Public Expenditures and Public Revenues. By HENRY CARTER ADAMS, Professor of Political Economy and Finance at the University of Michigan. New York: Henry Holt & Co., 1898. 8vo. pp. xiii + 572.

TO PROFESSOR HENRY ADAMS belongs the distinction of being the first among American writers to have completed a treatise of adequate compass covering the whole field of public finance, in the scientific use of that term. This much may be said without any disparagement of the notable achievements of other American investigators in the same field. Plehn's *Introduction*,[1] which came a few years ago, whatever its undoubted merits, was quite too brief to allow a satisfactory treatment of many subjects properly belonging even in a first book on the science of finance. And Seligman's scholarly essays and monographs, which have done so much to promote this department of study, have not yet extended beyond selected topics in the theory and history of taxation. But Professor Adams's book is not distinguished by priority and comprehensiveness alone, it is altogether an admirable piece of work. It is marked by a breadth and modernness of view, and by a unity of structure, such as make it in many ways superior to its British competitor. For Bastable's book, invaluable as the service it has rendered during the past eight years, is defective in one or two fundamental requisites — above all, in point of view. Mr. Adams does not speak unjustly of Bastable when he says of his book that "it fails to impress upon the student that sense of solidarity which alone may be urged as an apology for an independent treatment of financial questions" (p. 287). A careful comparison of the two shows that Adams has, and that Bastable has not, sufficiently shaken himself loose from the traditional position of classical political economy, to see the facts of finance as they must be seen if they are to be set forth in their true relations. The science of finance requires a larger social philosophy than Bastable brought to his task. Indeed, the conviction that a study of English financial literature seems to enforce is that finance must be divorced from political economy if its cultivation is to be made most fruitful. The notion of a collective interest, something other than a mere aggregate of private interests, and requiring for its furtherance and support the collective agency of the state, in brief, the concept of

[1] Noticed in this JOURNAL, March 1897, p. 264.

public economy, is the first datum of public finance. As Wagner has defined it, "Finance is the study of the *public* economy;" and this fairly well represents Professor Adams's position, too, though he has carefully noted its limitations. A passage (p. 53) in which he states his theory of public expenditures, shows this.

The situation seems to be that the older English writers did not need a theory of expenditures because the theory of government which they held implied a fixed limit to governmental functions; while the earlier German economists could not work out a satisfactory theory respecting the public use of money, because their theory of government presented too strong a presumption in favor of the state. As is so frequently the case, the truth respecting public expenditures lies between these extremes, and can only be discovered by the concurrent study of public and of private functions. A theory of public expenditures must be a theory of the evolution of the collective wants of individuals, and its further development necessitates an analysis of the governmental functions, not alone as they now are, but as they have developed.

So much for the author's point of view, which is consistently reflected throughout the different portions of his treatise, showing that he has thought it out as one connected whole. The 572 pages of the work are divided into three parts, dealing respectively with "Public Expenditures," "Public Revenue," and "Public Credit"—the last part containing most of the substance of the author's well-known essay on *Public Debts*. Budgets and budgetary legislation are treated in connection with expenditures.

The theory of public expenditures is treated briefly, but with great skill, and shows the writer at his best. He avoids perplexing statistical details on the one hand and commonplace generalization on the other. The problem of this part of financial science is stated to be "a theory of adjustments and apportionments—meaning by adjustment the assignment of a certain portion of the social income to expenditures through the agency of the state, and by apportionment, the assignment of the amount thus set aside between the various lines of public service." Rapid as has been the augmentation of public expenditures in this century, the striking fact is, as brought out by Mr. Adams, that they have not increased at so rapid a rate as property and income. The percentage of expenditures to property was one fourth greater in the United States in 1850 than in 1890. There has, however, been, in all the leading countries, a notable change in the distribution of the

aggregate expenditures among the different branches of government and among its different functions. Local expenditures have gained on national 25 per cent. in the United States from 1850 to 1890. Again, the developmental functions of government (of which public education is the most striking example) have occasioned increasing expenditures, while the protective functions "exhibit a tendency to decrease in proportion as the protective service of the state succeeds." "It is the social ideals rather than the social necessities that are coming to determine the amount of money placed at the disposal of the state" (p. 102). In harmony with these facts and this view, we are prepared for the author's conclusion that "the burden of the fiscal system lies rather in the rules adopted for collecting revenue than in the amount of revenue collected" (p. 94).

Turning, then, to Professor Adams's discussion of public revenue one finds much with which it is a pleasure to agree, but also something to criticise. Only a few points can be touched here. Public revenues are classified along the general lines proposed by Professor Seligman a few years ago, with some differences of terminology and detail. In place of the terms "contractual" and "compulsory," which Seligman appears to have adopted from Wagner, Adams follows Italian usage and takes the terms "direct" and "derivative," to designate the two great groups of public revenue. In the former classification the element of coercion is made the basis of distinction, in the latter the element of origin. The latter set of terms seems to be preferable because more descriptive of essential and lasting features, but Professor Adams's manner of stating, or, at any rate, of applying, his distinction reveals some difficulties. "Direct revenue constitutes a positive addition to the social income, while derivative revenue," we are told, "although it augments the income of the state, is in reality a transfer of a part of the earnings of the citizens to the state" (p. 220). Where, it may be asked, does the revenue of a state monopoly, like the tobacco monopoly of France, belong? Professor Adams classes it with direct revenue, although it can hardly be maintained that a fiscal monopoly that yields a return at the rate of 400 per cent. on operating expenses does not cut into the income of the community. The fact is that we have here a composite revenue, partly direct, but for the most part, derivative and not distinguishable in essence from taxation. The monopoly is simply a method of taxing, adopted because of its superior effectiveness for collecting a tax at an extraordinarily high rate. To say, as

Professor Adams does, that such payments include no element of taxation because "the purchaser may, if he choose, forego the purchase, and so be free from the payment," is to mistake both the character of derivative revenue and the nature of the coercion in taxation. On that ground we would be obliged to exclude the whole category of indirect taxes on consumption from taxation, because it is at the option of the individual to take or to leave the taxed commodity, and, therefore, to pay or avoid the tax. So far as the nature of the revenue is concerned, it makes no difference whether it comes in the shape of "profits" accruing from a government industry or of taxes imposed upon private industry. It partakes in either case of the character of derivative revenue. Hoffmann stated the correct attitude for the science of finance on this question sixty years ago when he said that, "under the constitution of the modern state, there is no longer any reason for regarding contributions toward the public expenses as of a nature different from other taxes simply because the government secures their payment by reserving to itself exclusively the trade in the commodities on which the tax is levied"—a position with which such leading German authorities as Wagner, Stein, Cohn, and Scheel, are in complete agreement. On this point Professor Adams has taken a backward step.

He has, however, taken a forward step, in advance of Seligman and others, in dropping the term "*quasi*-private price" from the vocabulary of finance, and with it the whole circle of mediæval ideas that it suggests. The state, in the renovated political science of our day, has no private interest; it is the embodiment of the public interest, and its charges are always (constructively at least) determined in view of public advantage, not of private profit. "It may be," as Professor Adams allows, "that, incidentally, the same charge will be made by government aiming to secure social utility as would be the case if the industry were administered upon a competitive basis; but the process of getting at the charge is so different in the two cases that one is justified in asserting that the charges themselves stand for essentially different concepts and represent essentially different social forces" (p. 231).

Passing to the author's treatment of taxes and noting his method of classifying them, it may be questioned whether he has not departed too widely from accepted ways of thinking. He establishes three groups: taxes on income, taxes on property as the source of income, taxes on business as a means of securing an income—each with its subclasses. The most striking thing in this scheme is the omission of

the familiar group of taxes on consumption. "There are no such taxes," says Professor Adams. "Taxes usually called taxes on consumption," he continues, "are either 'criterion taxes,' which are in reality taxes on income, or they are 'excise' or 'import' duties, which are clearly business taxes. All taxes affect consumption" (p. 356). Without stopping to question the propriety of stretching the term business taxes so as to include excise and import duties (in the levy of which, generally speaking, no note is taken of the condition, importance, or profitableness of the particular business as such), and, granting that all taxes affect consumption, what necessity can be deduced from this for rejecting these taxes which peculiarly affect consumption, especially in a scheme which professes to pay particular attention to the "psychology of different methods of attacking income"? Is it not equally true that all taxes affect income? Yet it is not proposed to drop taxes on income. In a sense, every tax is an income tax, so far as income is the normal source of all taxation, but no one, for that reason, mistakes what is meant by taxes on income. Consumption and income are, indeed, opposite faces of the same fact, but it makes considerable difference in the psychology of taxation on which side the approach is made.

Classification in taxation is largely a matter of arbitrary choice; there is no discoverable natural principle of division. Taxes have been classified according to the source whence the tax is paid; they have been classified according to the object or basis on which the tax is assessed; again, according to the relation sustained by the tax object to the tax source; and, fourthly, to go no further, according to the real or supposed incidence of the tax. All of these have something in common, but the third is the one which has commended itself in increasing degree to scientific judgment, because of its fitness to show the relations of different parts of the tax system and the complementary functions to be performed by the several kinds of taxes. And under any such classification conspicuous note will have to be taken of consumption. The fact is that consumption is too suggestive a fact to be capable of elimination. The pages of Professor Adams's own treatise give abundant evidence of that. "The consumer pays the tax;" "the incidence of indirect taxes rests with the consumer of goods," etc. (p. 391).

But there are deeper reasons than these for the retention of the significant expression consumption in the theory of taxation. More

than a question of formal classification is at stake. Consumption is a criterion in a more extensive and fundamental sense than Professor Adams perceives. It is a criterion not merely of income, but of faculty or contributive capacity as well. Our author espouses the faculty theory of taxation, but with a quite inadequate appreciation of what is implied by "faculty." He adopts the conventional view that faculty is measured by income, and quotes Cohn in approval of his position. But Cohn has certainly been at pains to show that income is, at best, only a partial measure of faculty. "The inflexible standard," says he (*Science of Finance*, pp. 379 and 577), "afforded by the amount of the income alone gives no information as to the individual's tax-paying capacity, this latter depending on the peculiar conditions of his life. The problem consists not alone in ascertaining the amount of the income, but also in finding the relation between the income and the aggregate necessary expenditure of each taxpayer." "Defects inherent in the nature of the tax [on income] are due to the fact that the method of ascertaining them necessarily applies too inflexible a standard in measuring the tax-paying capacity, and so makes a more flexible, subsidiary standard desirable. These defects plainly point to the taxes on consumption as well adapted to supplement and correct them." In brief, not only what a man earns, but what he can afford to spend, is the standard by which to measure his faculty. Consumption, as well as income, is a factor to be seriously reckoned with in the equities of taxation, no less than in the technique of taxation.

Attention may also be called in this connection to Professor Adams's latitudinarian interpretation of the term income, when he construes the inheritance tax as "a tax on revenue" (p. 361). This method of construing it is, indeed, in fashion with a certain class of writers, who seem to feel themselves under the necessity of reconciling the popular demand for inheritance taxation with the formula of "taxation in proportion to income," before they can accede to the demand. But no mere fiction of language can ever make income out of that which is economically property or capital. If, as the familiar and truthful figure has long described it, property is the tree which annually bears the fruits, and income is the fruit; then we must, perforce, agree with Cohn (*Science of Finance*, p. 357) when he says of the inheritance tax: "It is, in fact, a true property tax," and "hard to reconcile with any theory which condemns the taxation of property as a source of tax payment." The inheritance tax must be justified as, what

it is, a tax on property, without distorting or abusing one of the most precious terms of our science.

No notice of Professor Adams's treatise would be fair that did not call attention to his lucid and interesting chapters on the budget — there is nothing better on this subject in the English language — and to his repeated references to American financial conditions and needs. He has embodied, in a special chapter devoted to the purpose, his suggestions for the reform of the American revenue system, federal, state, and local. On the other hand, it must be regarded a most serious defect of his treatise that so little mention should be made of the revenue systems of the leading European countries. There is a real dearth of matter touching the history and present condition of taxation, such as will seriously limit the instructional value of the work. It is in this regard distinctly inferior to Bastable's book, where the theoretical analysis was well supported by a special book given over to the detailed discussion of the several kinds of taxes. This is equivalent to saying that Adams's work is too theoretical, or, rather that his analyses are too frequently undertaken without presentation of the facts and circumstances to be considered. The office of the science of finance is in a special sense interpretative: to assemble the facts of experience; to interpret these in the light of reason, judgment, and ideals; to extract the deliverances of history; and, on the basis of all this, to point the course of future development — this is the mission of the science.

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La Réforme Monétaire de la Russie. Par ETEOCLE LORINI. (Traduction Française par RAPHAEL LEDOS DE BEAUFORT). Paris: V. Giard & E. Brière, 1898. 8vo, pp. xiii+244.

La Réforme Monétaire de la Russie is an account of Russia's effort to improve her monetary system, and is the result of a mission to Russia undertaken by Professor Lorini under orders from Sig. Luzzatti of the Italian Treasury Department. It is thus an official report and the interest now generally felt as to the outcome of the measures taken by Russia has led to the immediate translation of the book into French.

Professor Lorini has paid little attention to the early history of Russian monetary policy. He scarcely discusses any event dating farther back than 1873, while the history of the twenty years succeeding that date is sketched only in the most general terms. "The